

HOUSING FINANCE AUTHORITY OF MIAMI-DADE COUNTY



Board Member Orientation
2004



HISTORY

■ Florida HFA's in General:

Authorized by Housing Finance Authority Law², Chapter 159, Part IV, Florida Statutes

- All major and most medium-sized counties have created HFA's.
- Most created in the late 70's and early 80's
- Florida Housing Corporation has responsibility for the entire State.



HISTORY

Housing Finance Authority of Miami-Dade County

- Created by the Board of County Commissioners in December 1978
- Mission is to provide capital to alleviate the shortage of affordable housing in the County

PROGRAMS

■ Finance for For-Profit and Not-For Profit Apartment Complexes

- 83 Multifamily bond issues totaling \$879,760,385 since 1983
- Certain percentage of units must be restricted to “low income tenants”.
- All other tenants must be “eligible tenants”.
- Project financed after 1986 have income limits of either 80%, 60% or 50% of median family income for all low income tenants.
- Median Family Income is adjusted for family size
- All Miami-Dade HFA projects have an eligible income limit



PROGRAMS

Single Family Bond Issues:

- Financing for owner-occupied housing
- First time homebuyer limit:
 - Borrower must not have owned a home within the past three years
 - Does not apply for homes purchased in Target Areas
- **Target Area:**
 - Specific Census Tracts designated by HUD as “Areas of Chronic Economic Distress”
 - 10% of all new mortgage funds must be available for Target Areas for one year.

PROGRAMS

■ Family Income Limits:

Countywide

- 1 or 2 Persons Household \$51,900
- 3 or more Persons Household \$59,685

Target Areas

- 1 or 2 Persons Household \$62,280
- 3 or more Persons Household \$72,660



PROGRAMS

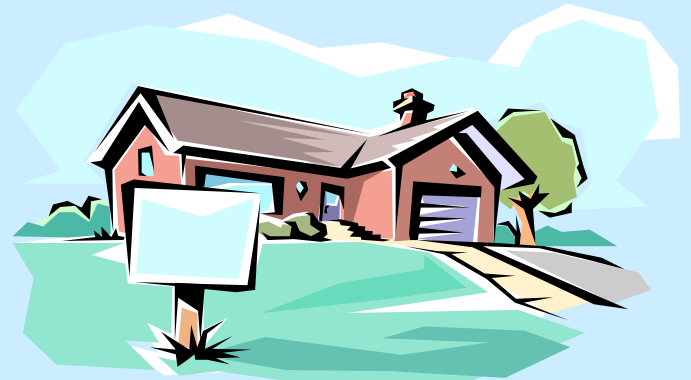
- Purchase Price Limits:
 - Countywide (90% of Median)
 - New Home \$233,163
 - Existing Home \$180,050
 - Target Areas (110% of Median)
 - New Home \$284,978
 - Existing Home \$220,061



PROGRAMS

Single Family Bond Issues:

- Previous Issues:
- Single Family Bond Issues in 1980, 1981, 1983, 1984, 1985, 1987, 1988, 1990, 1991, 1993, 1996, 1997 1998, 1999, 2000, and 2001, 202
- Total over \$1.092 Billion





PROGRAMS

- Foundation:
 - Creation of the Miami-Dade Affordable Housing Foundation a 501(c)3 organization in 1999
 - Architectural Design and Review Advisory Committee
 - In 1998 established an affordable housing design and review committee to assist with the architectural design of affordable housing in Miami-Dade County



BONDS 101

Conduit Financing:

- Bonds are issued by a governmental agency (the Authority) but repayment is made by a private entity (the multifamily developer or the single family borrowers).
- The Issuer is only required to repay the bonds from monies received from the borrower.
- The Issuer is not obligated to repay the bonds from any other source.



BONDS 101

- Conduit Financing:
 - The Issuer acts as a conduit for the financing and allows the Borrower to obtain tax-exempt financing if the bond issue provides a public service
 - For multifamily projects, the public service is the set-aside of apartments for low income tenants.



BONDS 101

Regulation of Tax-Exempt Bonds:

- County
 - Policies and Ordinances
 - All contracts of the Authority must be approved by the County
 - Conflict of Interest
 - Financial Disclosure



BONDS 101

Regulation of Tax-Exempt Bonds:

- State
 - Status
 - Chapter 159 describes the powers of local housing finance authorities
 - Can request courts to “validate” the bond structure prior to issuance



BONDS 101

Regulation of Tax-Exempt Bonds:

- Federal

- SEC (Securities and Exchange Commission)
- Federal Agency created in 1934
- Can request courts to “validate” the bond structure prior to issuance



BONDS 101

- Regulation of Tax-Exempt Bonds:
- Federal
 - MSRB (Municipal Securities Rules making Board)
 - Self-Regulating Organization established by Congress
 - Board consists of underwriters, banks, issuers and investors
 - Established rules for all aspects of municipal bond issuance
 - Underwriters and Financial Advisors must follow MSRB Rules



BONDS 101

- Secondary Market Disclosure:
 - New SEC rule for underwriters
 - Underwriters cannot buy a new bond issue unless the Issuer agrees to provide ongoing secondary disclosure
 - Prompt disclosure of specific material events
 - Annual disclosure of financial information



BONDS 101

Participants:

- **Staff:** Authority Employees
- **Financial Advisors:** Fiduciary advisory role to the Authority
- **Senior Managing Underwriters:** Structures and markets the bonds
- **Co-Managing Underwriter:** Assists in marketing the bonds



BONDS 101

Participants:

- **Bond Counsel:** Gives legal opinion that the Bonds are properly issued and are tax-exempt, if applicable
- **Underwriter's Counsel:** Prepares the disclosure document (Official Statement) and give the opinion that the Bonds are exempt from SEC registration requirement
- **Trustee:** Maintains the trust estate for the benefit of the Bondholders

BONDS 101

■ Participants:

- **Program Administrator/Master Servicer:** (Single Family Issues) Oversees all lenders and servicers of the mortgages
- **Developer: (Multifamily Issues)** Develops, owns and operates (usually) the multifamily project
- **Credit Enhancement Provider:**
 - **Bond Insurer:** MBIA, FGIC, AMBAC, Asset Guaranty
 - **Letter of Credit Provider:** Commercial Bank
 - **Agency (GNMA/FANNIE MAE):** Securitizes
 - **State Guarantee Fund**
 - **Rating Agencies:** Moody's, Standard & Poor's (S&P), Fitch and Duff & Phelps



BONDS 101

Private Activity Bonds:

- **Definition/Applicability:**
 - Any tax-exempt bond issue which provides benefits to a private party
 - All Single Family Bond issues are Private Activity Bonds
 - All Multifamily Bond issues for For-Profit Developers are Private Activity Bonds
 - Multifamily Bond issues for Non-Profit Developers are NOT Private Activity Bonds



BONDS 101

Private Activity Bonds:

- **Allocation Procedures**
 - Congress has limited the amount of Private Activity Bonds that can be issued in any calendar year
 - Each State gets \$75 per person with a minimum of \$225 million
 - Florida's available allocations approximately \$1.3 billion
 - Allocated by Statute
 - State Housing Finance Agency
 - State-wide Business Pool
 - Local Regions



BONDS 101

Private Activity Bonds:

▪ Allocation Procedures

- Miami-Dade County is a single region and receives approximately \$86.8 Million annually
- Major users are the Authority and the Miami-Dade County Industrial Development Authority, although any government within the County could issue private activity bonds



BONDS 101

Private Activity Bonds:

▪ **Extreme Time Sensitive**

- Allocation Procedures
- Allocation is awarded on a first-come, first-served basis within each region
- Issuers must request their allocation by June 30 and issue at least 90% of the amount requested within 150 days of the award of the allocation
- Any unused allocation on July 1 is returned to the State for a State-wide pool



BONDS 101

Private Activity Bonds:

- **Tax Equity and Responsibility Act of 1981
Public Notice Requirement
(TEFRA)**
 - Prior to the issuance of any Private Activity Bonds, a public meeting must be held to obtain input from the public
 - There is a two week public notice requirement for the TEFRA meeting



BONDS 101

Multifamily Mortgage Revenue Bonds:

▪ **Project Finance**

- Bonds are secured by the revenues of a specific project
- May require reserves, guarantees and/or credit enhancement

▪ **Application Procedures**

- Developer presents application package with application fee
- Staff, Financial Advisors, and the Architectural Design and Review Advisory Committee review and make formal recommendations to the Authority

BONDS 101

■ Multifamily Mortgage Revenue Bonds:

■ **Project Finance**

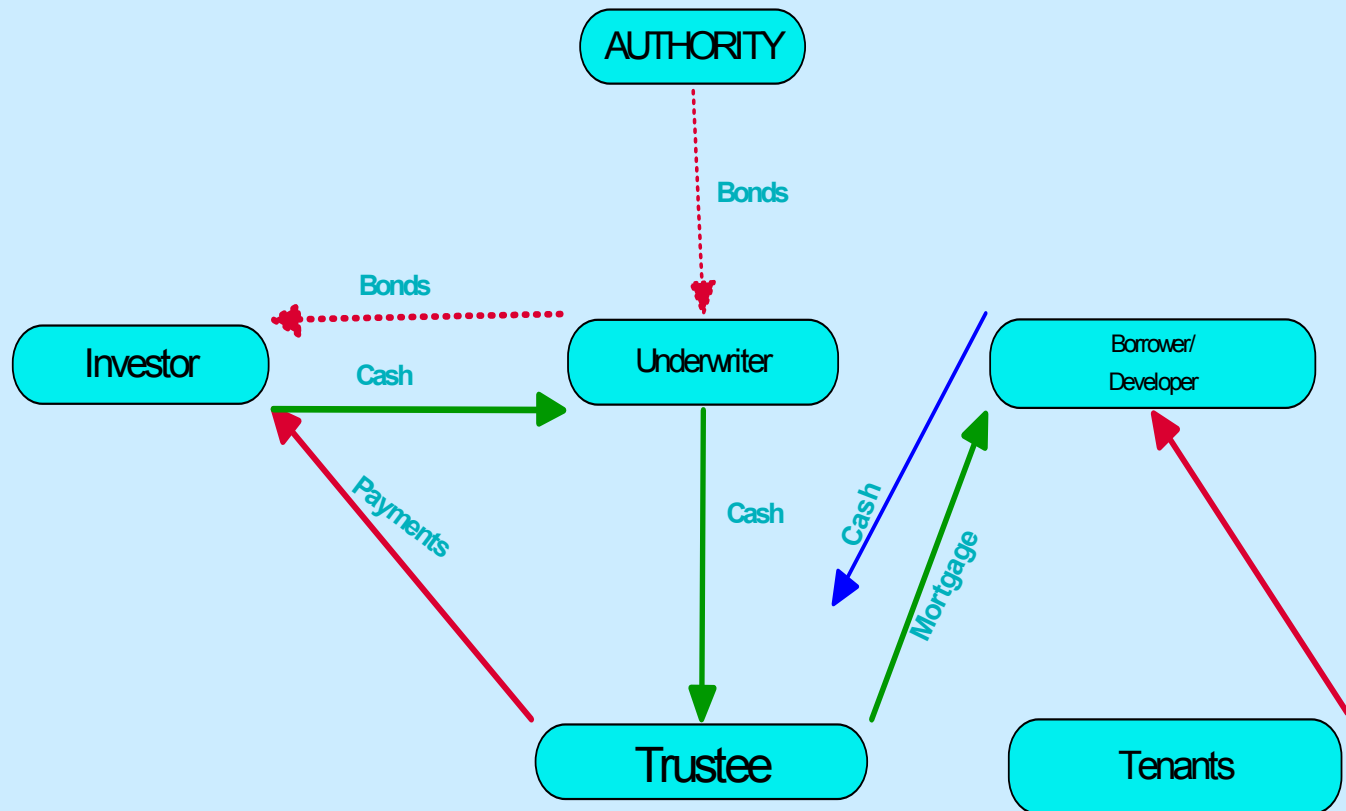
- Bonds are secured by the revenues of a specific project
- May require reserves, guarantees and/or credit enhancement

■ **Application Procedures**

- Developer presents application package with application fee
- Staff, Financial Advisors, and the Architectural Design and Review Advisory Committee review and make formal recommendations to the Authority

BONDS 101

Multifamily Mortgage Revenue Bonds:





BONDS 101

Single Family Mortgage Revenue Bonds:

- Historical Structure (1980-1986)
 - Whole Loan Financing
 - Bonds secured by portfolio of individual mortgages
 - Rating depends on portfolio quality
 - Bondholders taking mortgage credit risk as well as prepayment risk



BONDS 101

Single Family Mortgage Revenue Bonds:

- Current Structure – Securitized Bonds
 - GNMA/FANNIE MAE/FREDDIE MAC
 - When originated, mortgages are sold to GNMA, Fannie Mae or Freddie Mac and the Trustee receives an agency security to back the bonds
 - The Bonds are secured by the agency security, not the mortgages
 - Bonds receive a triple A rating
 - Bondholders are NOT taking credit risk



BONDS 101

- **Single Family Mortgage Revenue Bonds:**
- **Origination Period**
 - Time when bond proceeds are being used to originate mortgages
 - Origination period varies from six months to several years depending on the bond structure
 - Cannot exceed 41 months



BONDS 101

- **Single Family Mortgage Revenue Bonds:**
 - Bonds proceeds can be invested in taxable investments to match the origination period
 - Earnings need to cover the long term tax-exempt bond rate during the origination period
 - When long term tax-exempt rates (bond rate) exceed short term taxable rates (investment rate), it will cost money to keep the cash on hand during the origination period (Negative Arbitrage)
 - When extreme, can make financing too expensive



BONDS 101

- Single Family Mortgage Revenue Bonds:
 - Asset Finance – value of the underlying mortgage determines the value of the bonds
 - Non-Origination Risk – the risk the bonds will be called in the early years because insufficient mortgage have been originated
 - Prepayment Risk – since mortgages can be prepaid, Bondholders can have their bonds called early, usually when rates are falling

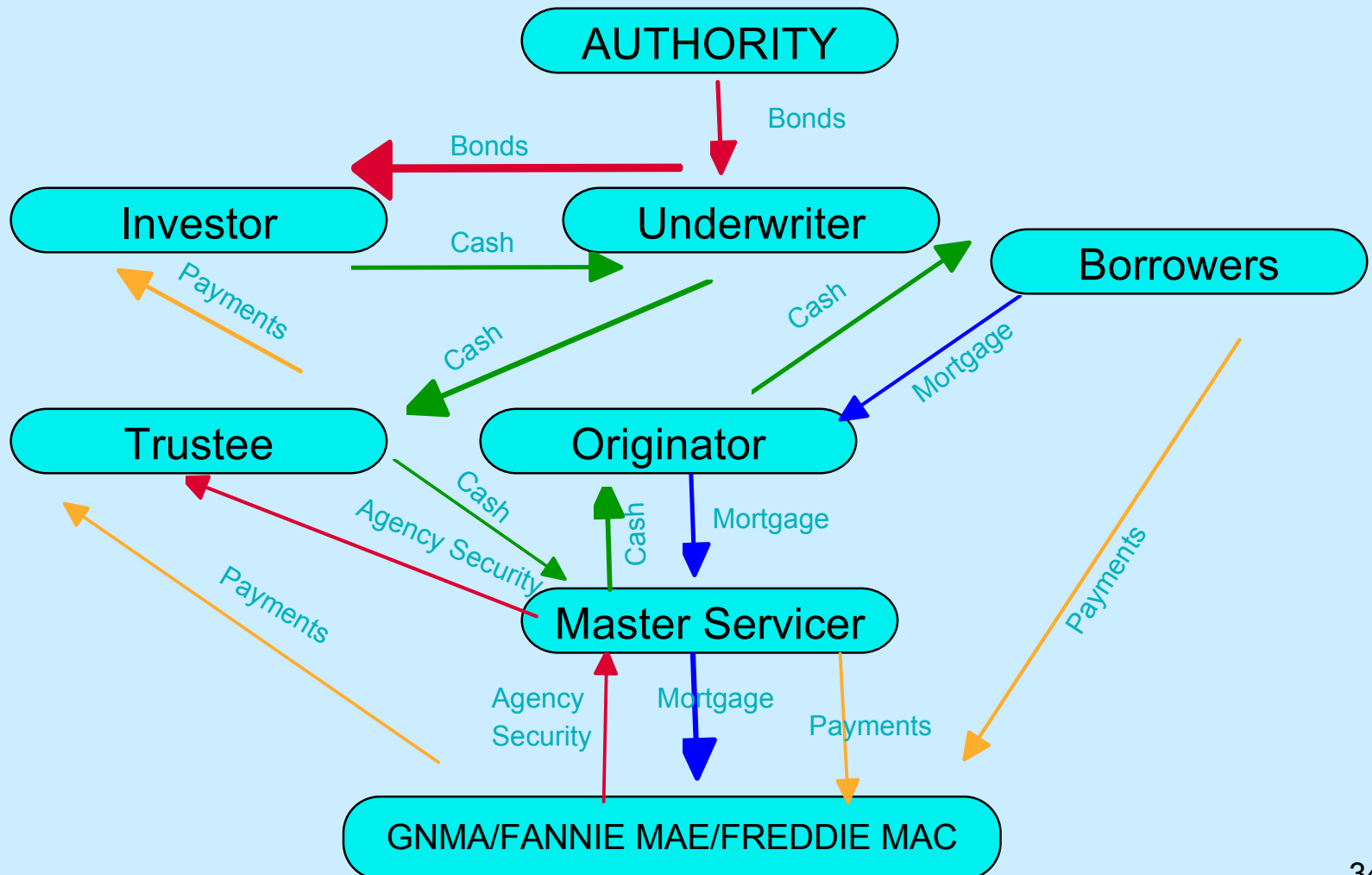


BONDS 101

- **Single Family Mortgage Revenue Bonds:**
- **Cash Flow Analysis**
 - Requires various prepayment assumptions
 - PSA is industry standard – developed by Public Securities Association (PSA), bond industry group
 - Run scenarios at 0% PSA, 100% PSA, 100% PSA, 500% PSA, etc.
 - Stress Tests – run cash flows at various origination and prepayment assumptions to insure sufficient revenues to repay the bonds

BONDS 101

2001 SINGLE FAMILY MORTGAGE REVENUE BONDS:





BONDS 101

Authority's Credit Concerns:

- Rating concerns usually only occur with multifamily mortgage revenue bonds
- Investment Grade rating or Sales restricted to Institutional Investors only
- Minimum Investment Grade rating is “Baa” from Moody’s and “BBB” from S&P
- Issues below Investment Grade or Non-Rated issues can only be sold to Institutional Investors
- The Authority keeps “retail” or “mom and pop” investors from purchasing its non-rated issues because of the substantial default risk



BONDS 101

Authority's Credit Concerns:

- Institutional Investor is defined as an investor with a net worth of at least \$1 million, who is actively engaged in investing in the type of bonds offered, and who is able to independently analyze the credit risks associated with the bond issue
- A “Big Boy” letter is required from investors buying the Authority’s non-rated bonds
- Big Boy letter acknowledges that the investor is an institutional investor, that they have independently analyzed the bond issue before purchasing the bonds, and they will only sell the bonds to other institutional investors
- Non-rated bonds must be issued in minimum denominations of \$100,000



BONDS ISSUANCE PROCESS

Initial Approval:

- Authority Initial approval of Resolution (Intent Resolution)
- TEFRA Hearing
- Authority Approval of TEFRA Hearing
- Board of County Commissioners Approval of Intent Resolution & TEFRA Resolution
- Authority Approval of the Issuance of Bonds
- Board of County Commissioners Resolution Approving the Issuance of Bonds
- Request Allocation from the State
- Begin preparing documents



BOND ISSUANCE PROCESS

Competitive vs. Negotiated:

- Under County policies and State statutes, must use competitive sale unless reason can be shown for negotiated sale
- In competitive sale, the Issuer structures the Bond issue and invites bids from Underwriters on a specific date in the future
- No Underwriting involved in structuring



BOND ISSUANCE PROCESS

Competitive vs. Negotiated:

- No premarketing of bonds
- Works best for “plain vanilla” deals
- Housing bonds are typically considered too complicated for competitive bid
- Very few State housing deals are sold by competitive sale, no local housing issues



BOND ISSUANCE PROCESS

Structuring:

- Resolution
 - Approves the financing in general terms
 - Separate Authority and County Resolutions
- Trust Indenture
 - Between the Authority and the Trustee
 - Describes all aspects of the Bonds
- Preliminary Official Statement (POS)
 - Legal disclosure document describing the bonds and the Authority and any relevant information as to the structure, credit and characteristics of the bonds
 - Prepared by Underwriter's Counsel, but is a document of the Authority



BOND ISSUANCE PROCESS

Structuring:

- False or misleading statements or omitting material information is considered fraud
- All Board members should review
- POS is complete except for bond size and pricing information not known until after pricing of the bonds
- Official Statement (OS) is final official statement containing final pricing and structuring information



BOND ISSUANCE PROCESS

Structuring:

Bond Purchase Agreement

- Between the Authority and the Underwriter
- Establishes the terms of the sale of the Bonds

Various Legal Documents

- Provides direction to servicers, lenders and other participants



BOND ISSUANCE PROCESS

Book-Entry vs. Registered:

- In Book-entry bonds, investors do not receive physical bonds
- All records of ownership are computerized
- Single bond is held by DTC (Depository Trust Company) In New York
- Cheaper to administer
- Easier to transfer bonds



BOND ISSUANCE PROCESS

Book-Entry vs. Registered:

- With Registered bonds, owners receive actual printed bonds
- More expensive – requires printed bonds
- More expensive to administer
- Some individual investors still prefer to be able to physically touch their bonds
- Much less common to use Registered Bonds



BOND ISSUANCE PROCESS

Marketing:

Senior Manager

- Structures the bond issue
- Leads the pricing process
- Keeps the “book” of orders from investors
- Allocates bonds to the Co-Managers, with the Authority’s input

Co-Manager

- Helps sell the bonds



BOND ISSUANCE PROCESS

Marketing:

▪ **Financial Advisor – Advises the Authority on:**

- Market Conditions
- Proposed pricing
- Proposed allocations

▪ **Pricing:**

- Rates are determined by “testing” the market through an order period, usually about four hours long



BOND ISSUANCE PROCESS

Pricing:

- If demand (orders) is high, rates may be reduced for certain maturities
- If demand (orders) is low, rates may be increased for certain maturities
- After order period and rate adjustments, if any, the Senior Manager will agree to buy the bonds
- The Authority's representative gives a Verbal Award, pending formal approval



BOND ISSUANCE PROCESS

Pricing:

- **Senior Manager makes tentative allocation of bonds to participating Underwriters based on:**
 - Target percent allocation determined in advance by the Authority
 - Orders placed by the individual Underwriters
 - Priority of Orders placed by the individual Underwriters



BOND ISSUANCE PROCESS

Priority of Orders:

- **Group Net**
 - Highest Priority
- **Net Designated**
 - Next highest Priority
- **Member Order**
 - Lowest Priority



BOND ISSUANCE PROCESS

Priority of Orders:

- **Group Net** – all underwriters share the takedown (commission) based on percent participation determined by the Authority. Investors tend not to like this because it gives them less ability to reward underwriters who provide them service such as liquidity, research and access to new bond issues.



BOND ISSUANCE PROCESS

Priority of Orders:

- **Net Designated** — a smaller number of underwriters share in the takedown as selected by the investor, subject to rules determined by the Authority. Typical rules are that at least three underwriters must share and no underwriter can receive more than 50% of the takedown.



BOND ISSUANCE PROCESS

Priority of Orders:

- **Member Order** – All of the takedown goes to the underwriter with whom the investor places the order. Gives the investor the greatest ability to reward underwriters, but lowest likelihood of actually getting the bonds.



BOND ISSUANCE PROCESS

Priority of Orders:

- Issuers can add special levels such as Florida or Miami-Dade County individual investors
- The allocation process controls how the co-managers are compensated



BOND ISSUANCE PROCESS

Sale:

- After the Verbal Award is received, the Bond Purchase Contract is signed
- Specifies the requirements for delivery and closing of the bonds
- The Authority's approving resolution usually delegates the power to sign the Bond Purchase Agreement to the Chairman or vice-Chairman



BOND ISSUANCE PROCESS

Closing:

- Execution of all documents
- Transfer of funds
- Usually all documents are signed the day before
- Closing must occur by 1:00 pm in order for all the bonds to be transferred and credited to the investors' accounts



OTHER ISSUES

- Types of Investors
- Refunding Options
- National Association of Local Housing Finance Agencies (NALHFA) (www.nalhfa.org)
- Florida ALHFA (www.flalhfa.com)
- Tax Credit